

State of Idaho

Legislative Services Office

Management Report

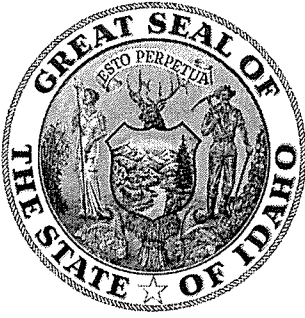
A communication to the Joint Finance-Appropriations Committee

OFFICE OF THE STATE TREASURER

FY 2005, 2006, and 2007

Report IC15007
Date Issued: July 7, 2008

Serving Idaho's Citizen Legislature



Don H. Berg, Manager

**Idaho Legislative Services Office
Legislative Audits Division**

OFFICE OF THE STATE TREASURER

SUMMARY

PURPOSE OF MANAGEMENT REVIEW

We conducted a management review of the Office of the State Treasurer covering the fiscal years ended June 30, 2005, 2006, and 2007. Our review covered general administrative procedures and accounting controls to determine that activities are properly recorded and reported.

The intent of this review was not to express an opinion, but to provide general assurance on internal controls and to raise the awareness of management and others of any conditions and control weaknesses that may exist and offer recommendations for improvement.

CONCLUSION

Based on the limited procedures applied, we conclude the financial operations of the Office meet acceptable standards. Further, the Office substantially complies with laws, regulations, rules, grants, and contracts for which we tested compliance.

FINDINGS AND RECOMMENDATIONS

There are two findings and recommendations in this report.

1. Discrepancies in the investment accounting system data raise the risk of errors in the distribution of earnings and reported value of investments.
2. Issuance costs of \$80,000 for the Bond Bank Authority were subsidized by the State Treasurer's Office.

The complete finding is detailed on pages 1 and 2. A copy of the entire report is available at <http://www.legislature.idaho.gov/audit/index.htm>, or by calling 208-334-4832.

PRIOR FINDINGS AND RECOMMENDATIONS

The prior management review completed for fiscal year 2006, in conjunction with the *Comprehensive Annual Financial Report (CAFR)*, contained one finding and recommendation. The finding has been closed and repeated as Finding #1 above.

AGENCY RESPONSE

The State Treasurer's Office has reviewed the report and is in general agreement with its contents. Its complete response is included on pages 1 and 2.

FINANCIAL INFORMATION

The following financial data is for informational purposes only.

IDAHO STATE TREASURER'S OFFICE – FINANCIAL INFORMATION

	General Fund	Veteran's Cemetery Maintenance Fund 0211	Miscellaneous Revenue Fund 0349	Professional Services Fund 0475	Idaho Millennium Income Fund 0499	Idaho Millennium Fund 0540	Idaho Millennium Endowment Fund 0545
Beginning Balance or	\$1,249,300	\$0	\$0	\$442,389	\$(59,016)	\$35	\$0
Receipts/Transfers In	0	4,977	4,977	334,103	1,388,410	8,003,101	27,972,378
Total Appropriation and	\$1,249,300	\$4,977	\$4,977	\$776,492	\$1,329,394	\$8,003,136	\$27,972,378
<u>Disbursements:</u>							
Personnel Costs	\$879,500	\$0	\$0	\$406,674	\$0	\$0	\$0
Operating Expenses	361,511	0	0	224,166	0	0	0
Capital Outlay	3,955	0	0	21,123	0	0	0
Trustee and Benefit	0	0	0	0	107,900	0	0
Transfers Out	0	4,977	4,977	0	1,161,866	0	0
Net Purchase of Investment	0	0	0	0	0	8,003,003	27,972,358
Total Disbursement	\$1,244,966	\$4,977	\$4,977	\$651,963	\$1,269,766	\$8,003,003	\$27,972,358
Reversion to State General Fund	\$4,334	\$0	\$0	\$0	\$0	\$0	\$0
Ending Balance	\$0	\$0	\$0	\$124,529	\$59,628	\$133	\$20
Investments						\$8,003,003	\$27,972,358

OTHER INFORMATION

We discussed other issues which, if changed, would improve internal control, compliance, and efficiency.

This report is intended solely for the information and use of the State of Idaho and the Office of the State Treasurer and is not intended to be used by anyone other than these specified parties.

We appreciate the cooperation and assistance given to us by the Honorable Ron Crane, State Treasurer, and his staff.

ASSIGNED STAFF

April Renfro, CPA, Managing Auditor
Patrick Aggers, CPA, In Charge Auditor
Jolene Crumley, Staff Auditor

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FINDINGS AND RECOMMENDATIONS

FINDING #1

Discrepancies in the investment accounting system data raise the risk of errors in the distribution of earnings and reported value of investments.

The Office uses QED, an investment accounting system software, to account for the State's investments within three distinct pools. Reports from this system are used to distribute earnings and prepare and support the amounts included in the State's annual financial statements. The software allows staff to modify reports and contents to suit their particular needs.

We identified discrepancies in the investment reports and income distributions produced by the QED system that were not detected or corrected by the Office's existing controls. For example, accrued interest reported on the June 2007 IDLE Pool income distribution was \$720,780 higher than reported on the June 2007 IDLE Pool reconciliation. We also noted discrepancies in the QED system reports for the long-term portion of investments in the IDLE Pool. One report shows the value as \$169,516,138, while a second report shows the value as \$170,869,463. This investment should be accounted for at the same value regardless of the report.

Although the ability to alter the software reports and formats is a contributing factor, our primary concern is that appropriate accounting expertise is not available to develop procedures to prevent or detect these discrepancies.

RECOMMENDATION #1

We recommend that the Office review accounting procedures and controls to ensure the integrity of investment data within the QED system to produce accurate investment valuation and income distribution. We further recommend that the Office recruit appropriate accounting expertise in order to manage the complex investment accounting functions.

AGENCY'S CORRECTIVE ACTION PLAN

1. Accrued interest reported on the June 2007 IDLE Pool income distribution was \$720,780 higher than reported on the June 2007 IDLE Pool reconciliation.

The discrepancies resulted from a change from the traditional State of Idaho cash accounting methodology to GASB accepted accrual accounting methodology. The differences are documented and the systems have been changed to accommodate the difference in accounting calculations with the exception of money market accounts. The current software programming is unable to accrue money market accrued income because of the daily fluctuations of the interest rate so this adjustment is done manually at the end of the month.

The difference of \$720,780 was the manual adjustment for the money market accruals, which was included in our reconciliation.

2. Various QED reports show different values for the IDLE long-term portion of investments in the IDLE Pool.

The QED report showing the balance at \$170,869,463 is reflecting the original cash that has been put into the long-term portion of IDLE. In order to balance daily to STARS on a cash basis, the reinvestments in the fund are booked at dollar for dollar in this portion of QED. In actuality, this fund is market to market so the net asset value fluctuates. The other QED report showing the balance at \$169,516,138 reflects this NAV fluctuation. In order to avoid confusion in the future, the State Treasurer's Office will be moving the long-term portion of IDLE in the QED holdings report (the dollar for dollar portion). We will assign this portion of the portfolio its own fund detail in STARS for balancing purposes.

FINDING #2

Issuance costs of \$80,000 for the Bond Bank Authority were subsidized by the State Treasurer's Office.

The Idaho Bond Bank Authority was established by Idaho Code as an instrumentality of the State within the State Treasurer's Office, but has a legal existence independent from the State. The purpose of the Authority is to bundle bonding activities of local governments to provide greater access to capital markets and reduce the cost of borrowing. Idaho Code further provides that the Authority can charge fees to local governments to cover issuance costs and related expenses.

The Office paid a total of \$80,000 for issuance costs of two separate bonds, \$20,000 of which was during fiscal year 2007. There is no indication in Idaho Code that the Office is responsible for costs associated with the Bond Bank Authority, or that a specific appropriation was provided. The Office subsidized these costs to ensure that local governments received more favorable financing agreements than were otherwise available.

RECOMMENDATION #2

We recommend that the Office discontinue the practice of subsidizing the Idaho Bond Bank Authority and direct the Authority to recover issuance costs and other expenses through fees charged to local governments as allowed by Idaho Code.

AGENCY'S CORRECTIVE ACTION PLAN

Regarding subsidizing issuance costs of \$80,000 for the Bond Bank Authority, prior to making the expenditures, the State Treasurer's Office communicated with legislators explaining our intent. Realizing the need for the expenditures, we obtained statutory authority, Idaho Code 67-8720, to spend STO appropriations for Bond Bank expenses.

The intent of the legislation was to allow expenditures to help the bond bank market itself as a viable entity for municipalities to use when accessing capital markets. It is anticipated that this expenditure will assist the Idaho Bond Bank to attract and encourage more municipalities to participate, and the increased growth in activity will not only spread issuance costs over a larger pool of borrowers but will ultimately allow the Bond Bank to begin to recover operating costs by charging modest fees for the services it provides Idaho communities.

AGENCY RESPONSE

RON G. CRANE
STATE TREASURER



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**STATE OF IDAHO
OFFICE OF THE STATE TREASURER**

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April Renfro
Legislative Audits
954 W. Jefferson St. 2nd Floor
Boise, ID 83720-0054

June 26, 2008

Dear Ms. Renfro:

Thank you for the comprehensive review of the State Treasurer's Office. I have reviewed the legislative audit for the Fiscal Years 2005, 2006, and 2007 and accept it as presented.

As always it is a pleasure to work with you and your staff. I appreciate your efforts to streamline and improve the operations of our office.

Sincerely,

A handwritten signature in black ink, appearing to read "R. Crane", followed by a long horizontal line.

Ron G. Crane
State Treasurer

APPENDIX – A

TREASURER FUNDS AS A CONTROL AGENCY

The Office of the State Treasurer holds and administers several funds as directed by Idaho Code, and for the purpose of managing the State's cash and investments.

	General Fund	Capitol Endowment Income Fund 0481-09	Local Government Investment Pool Fund 0625	Local Government Diversified Bond Fund 0625-01	Custodial Fund 0630
Beginning Balance or Appropriation	\$0	\$538	\$0	\$0	\$39,955
Receipts/Transfers In	21,599,493	415,720	286,920	(3,911,905)	21,539,382
Total Appropriation and Receipts	<u>\$21,599,493</u>	<u>\$416,258</u>	<u>\$286,920</u>	<u>\$(3,911,905)</u>	<u>\$21,579,337</u>
<u>Disbursements:</u>					
Personnel Costs	\$0	\$0	\$0	\$0	\$0
Operating Expenses	4,522,397	0	0	0	0
Capital Outlay	0	0	0	0	0
Trustee and Benefit	0	0	0	0	0
Transfers Out	0	413,132	286,920	0	21,534,094
Net Purchase of Investment	0	0	215,908,941	(3,911,905)	0
Total Disbursement	<u>\$4,522,397</u>	<u>\$413,132</u>	<u>\$216,195,861</u>	<u>\$(3,911,905)</u>	<u>\$21,534,094</u>
Reversion to State General Fund	<u>\$17,077,096</u>	<u>\$3,126</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Ending Balance	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$45,243</u>
Investments			<u>\$1,212,631,267</u>	<u>\$103,640,632</u>	

The Treasurer issues internal and external Tax Anticipation Notes (TANs) with the approval of the State Board of Examiners. The Treasurer borrows money in anticipation of the income or revenue from taxes. The TANs are repaid by June 30 of each year. In fiscal year 2007, the Treasurer issued \$100 million in external TANs and \$170 million in internal TANs.

External 2007 Series Tax Anticipation Notes (TANs)

TANs Issued	\$100,000,000
Interest Earned	7,365,777
Premium on Sale	<u>551,050</u>
Total Available	<u>\$107,916,827</u>
TANs Principal Payment	\$100,000,000
Interest for TANs and Other	0
Expenses	<u>4,425,000</u>
Net to State	<u>\$3,491,827</u>

APPENDIX B

HISTORY

Article IV, Section I, of the Idaho Constitution created the Office of the State Treasurer. The State Treasurer is an elected official and serves a four-year term.

STATUTORY AUTHORITY AND PURPOSE

Duties of the State Treasurer's Office, as stated in Title 67, Chapters 12 and 13 of the Idaho Code include:

1. Maintaining a central depository for money collected by the State.
2. Issuing receipts for deposits made by State agencies.
3. Redeeming and paying warrants issued by the Office of the State Controller and authorizing all electronic fund transfers (EFTs) and electronic benefit transfers (EBTs).
4. Keeping daily balances of all money received and disbursed for each State fund.
5. Investing surplus cash and overseeing timely collections, deposits, and disbursements of revenue.
6. Serving as custodian of securities and investments for various separate accounts and agencies.
7. Serving as custodian for insurance companies' security deposits that are required before an insurance company may conduct workers' compensation insurance business in Idaho.
8. Serving as custodian of the State Endowment Fund.
9. Serving as agent and administrator of the Local Government Investment Pool, which allows cities, counties, school districts, and other local governments to pool funds for investment purposes.
10. Serving as Idaho's municipal and State debt information depository (SID).
11. Serving as a member of the State Board of Canvassers.
12. Serving as Chairman of the College Savings Program Board.
13. Serving as Ex-Officio Advisor to the Idaho Housing and Finance Association.

Since 1980, the State Treasurer has provided an investment option for municipalities and other tax exempt self-governing agencies through agreements with each agency as their agent. Idaho Code, Section 67-2328, authorizes this joint exercise of power activity.

ORGANIZATION

The State Treasurer employed 17 regular employees and one group employee on June 30, 2007. The Office is organized into the following operations: statewide accounting and data processing, administration, banking, State investments, and the Local Government Investment Pool.

FUNDING

In fiscal year 2007, the State Treasurer's Office received \$1,249,300 in General Fund money to cover the cost of completing the constitutional duties of the office. Professional fees are charged to cover the costs of the investment division.

Treasurer's Office

Ron G. Crane
State Treasurer

LeAnn Sullivan
Executive Assistant

Laura Steffler
Chief of Staff

Administration Division

Jennifer Hobbs
Financial Officer

Angela Bonaminio
Deputy Treasurer

Mark Brisson
Programmer/Analyst

Landon Stephenson
Programmer/Analyst

Group Position

Banking Division

Colleen Calhoun
Treasury Cashier

Lara Millich
Treasury Cashier

Carol Wasden
Wire Transfer Specialist

Yvonne McFarland
Disbursement Specialist

Ardie Noyes
Banking Assistant

Investment Division

Liza Carberry
Investment Manager

Shawn Nydegger
Investment Officer

Denise Shields
LGIP Administrator

Chris Priest
Investment Assistant

Eric Shaw
Programmer/Analyst